

CRESTON CITY WATER WORKS
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2020

Table of Contents

Officials.		3
Independent Auditor’s Report.		4-5
Management’s Discussion and Analysis.		6-8
Basic Financial Statement:		
	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.	A.....	10
Notes to Financial Statement..		11-19
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)		22-23
Notes to Other Information - Budgetary Reporting.....		24
Schedule of the Creston City Water Works’ Proportionate Share of the Net Pension Liability.		25
Schedule of Creston City Water Works’ Contributions.		26-27
Notes to Other Information - Pension Liability..		28
Supplementary Information:		
	<u>Schedule</u>	
Unaudited Schedule of Operating Statistics.	1.....	30
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		32-33
Schedule of Findings.		34-35

CRESTON CITY WATER WORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dawn Loudon..	Chairman/Secretary.	December, 2020
	Trustee.	December, 2022
Ann Levine..	Vice-Chairman. . . (Started 1-14-20)...	December, 2020
	Trustee.	December, 2024
Mark Eblen.	Treasurer..... (Started 1-14-20)...	December, 2020
	Trustee.	December, 2024
Kyle Huck.	Trustee (Started 3-1-20).....	December, 2022
John Tapken..	Trustee.....(Started 10-1-19).....	December, 2020
David Koets.	Vice-Chairman.....	December, 2019
	Trustee.....(Resigned 8-14-19)...	December, 2020
David Beck..	Treasurer.....	December, 2019
	Trustee.....(Resigned 2-11-20)...	December, 2022
Steve Guthrie.	General Manager.	Indefinite
Angie West..	Office Manager..	Indefinite

**NOTE: ONE YEAR TERM AS OFFICER
SIX YEAR TERM AS TRUSTEE (APPOINTED BY MAYOR)**



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

4949 Pleasant Street, Suite 104

West Des Moines, Iowa 50266

(515)-223-4841

FAX: (515)-223-0851

Independent Auditor's Report

To the Board of Trustees of the
Creston City Water Works

Report on the Financial Statements

We have audited the accompanying financial statement of the Creston City Water Works as of and for the year ended June 30, 2020, and the related notes to the financial statements listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Creston City Water Works' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Creston City Water Works' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Creston City Water Works as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement which was prepared on the basis of cash receipts and disbursements. The statistical information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statement. This information has not been subject to the auditing procedures applied in the audit of the basic financial statement and, accordingly we do not express an opinion or provide any assurance on it.

The other information, the Creston City Water Works' Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the Creston City Water Works' Proportionate Share of the Net Pension Liability and the Schedule of Creston City Water Works' Contributions on pages 6 through 8 and 22 through 28, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2020, on our consideration of Creston City Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Creston City Water Works' internal control over financial reporting and compliance.

Martens & Company, CPA, LLP

West Des Moines, Iowa
August 17, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Creston City Water Works provides this Management's Discussion and Analysis of its financial statement. The narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2020. We encourage readers to consider this information in conjunction with the Creston City Water Works' financial statements, which follow.

2020 FINANCIAL HIGHLIGHTS

- The Creston City Water Works general consumer water revenues increased by approximately \$489,000 from the previous fiscal year. The rural water sales increased by approximately \$251,000 from the previous fiscal year. Interest on investments decreased \$1,444 from the previous year.
- The Creston City Water Works' total disbursements decreased approximately \$1,464,000 from fiscal year 2019 to fiscal year 2020 due to paying approximately \$748,000 less on membrane filtration, a decrease of \$284,000 on capital outlays, \$326,000 on miscellaneous plant expenses and \$81,200 on chemicals.
- The Creston City Water Works' total cash balance increased approximately \$1,543,000 from fiscal year 2019 to fiscal year 2020. SIRWA reimbursed the Creston City Water Works \$1,000,000 in partial consideration of the early termination of their contract to purchase water.

USING THIS ANNUAL REPORT

The annual report consists of a financial statement as well as other information as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Creston City Water Works' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Creston City Water Works' receipts and disbursements, non-operating receipts and disbursements and whether the Water Works' cash basis financial position has improved or deteriorated as a result of the year's activities.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statement.

Other information further explains and supports the financial statement with a comparison of the Creston City Water Works' budget for the year and the Creston City Water Works' proportionate share of the net pension liability and related contributions.

Supplementary information provides detailed information about the operating statistics and insurance coverage.

BASIS OF ACCOUNTING

The Creston City Water Works maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Creston City Water Works are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the fund in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind that limitations resulting from the use of cash basis accounting.

FINANCIAL ANALYSIS OF THE CRESTON CITY WATER WORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Balance

The purpose of the statement is to present the receipts received by the Creston City Water Works and the disbursements paid by the Creston City Water Works, both operating and non-operating. The statement also presents a fiscal snapshot of the Creston City Water Works' cash balance at year end. Over time, readers of the financial statement are able to determine the Creston City Water Works' financial position by analyzing the increase and decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in the cash balance for the years ended June 30, 2020 and June 30, 2019 is presented below:

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2020	2019
Receipts:		
Program receipts:		
Water utility receipts (all sources)	\$ 4,750	\$ 4,250
Sewer rental receipts collected for City	1,231	1,141
Garbage receipts collected for City	691	671
Total receipts	<u>6,672</u>	<u>6,062</u>
Disbursements:		
All water utility expenditures	3,224	4,769
Sewer rental expenditures remitted to City	1,234	1,157
Garbage expenditures remitted to City	671	667
Total disbursements	<u>5,129</u>	<u>6,593</u>
Increase (decrease) in cash balance	1,543	(531)
Cash balance beginning of fiscal year	<u>766</u>	<u>1,297</u>
Cash balance end of fiscal year	<u>\$ 2,309</u>	<u>\$ 766</u>

The total business type activity receipts for the fiscal year were approximately \$6,672,000, which includes sewer and garbage collections that are in turn paid to the City of Creston, as compared to approximately \$6,062,000

collected the prior fiscal year.

THE WATER WORKS INDIVIDUAL MAJOR FUND

The Creston City Water Works uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Creston City Water Works fund is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the Creston City Water Works major fund.

CRESTON CITY WATER WORKS - GENERAL FUND

The General Fund is the chief operating fund of the Creston City Water Works. At the end of the current fiscal year, the cash balance in the General Fund was approximately \$2,309,000, an increase of approximately \$1,543,000.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Creston City Water Works annually adopts a budget following the required public notice and hearings for the fund. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. The Creston City Water Works amended its operating budget once at year end. The budget was approved and passed unanimously by the Creston City Water Works' Board of Trustees.

The Water Works did not exceed the amount budgeted in disbursements for the year ended June 30, 2020.

DEBT ADMINISTRATION

At June 30, 2020, the Creston City Water Works had \$1,007 in a capital lease outstanding. Additional information about the capital lease is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Creston City Water Works' Board of Trustees considered many factors when setting the 2021 fiscal year budget. The Water Works' Board of Trustees were not involved in any major projects for fiscal year 2020.

Other items of importance to the Water Works' Board of Trustees are return on investments and the cost of employee benefits.

These factors all contributed when adopting the fiscal year 2020-2021 budget. The budget includes Business Type Activities, for Water expenditures. Steps implemented by the Water Works' Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2020-2021 fiscal year budget.

CONTACTING THE CRESTON CITY WATER WORKS' FINANCIAL MANAGEMENT

This financial report is designed to provide our rate-payers and creditors with a general overview of the Creston City Water Works' finances and to show the Creston City Water Works' accountability for the money it receives. If you have questions about this report or need additional information, contact Steve Guthrie, General Manager, Creston City Water Works, 820 Park Street, P.O. Box 405, Creston, Iowa 50801.

Basic Financial Statement

Creston City Water Works
**Statement of Cash Receipts, Disbursements and
Changes in Cash Balances**
As of and For the Year Ended June 30, 2020

	<u>2020</u>
Operating receipts:	
Charge for service	\$ 3,629,865
Miscellaneous	<u>83,113</u>
Total operating receipts	3,712,978
Operating disbursements	
Business type activities	<u>3,119,299</u>
Excess of operating receipts over operating disbursements	593,679
Non-operating receipts (disbursements)	
SIRWA Reimbursement	1,000,000
Interest on investments	4,388
Sewer and garbage fees collected for the City	1,922,192
Consumer deposits	32,860
Capital outlays	(61,739)
Sewer and garbage fees remitted to the City	(1,904,806)
Deposit refunds	<u>(43,548)</u>
Net non-operating receipts (disbursements)	<u>949,347</u>
Change in cash balances	1,543,026
Cash balances, beginning of year	<u>766,421</u>
Cash balances, end of year	\$ <u><u>2,309,447</u></u>
Cash basis fund balance	
Restricted for:	
Equipment replacement	\$ 1,291,214
Customer deposits	202,748
Sewer and garbage fees	<u>146,732</u>
Total restricted cash basis fund balance	1,640,694
Unrestricted	<u>668,753</u>
Total cash basis fund balances	\$ <u><u>2,309,447</u></u>

See notes to financial statements.

Creston City Water Works

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies

The Creston City Water Works is a political subdivision of the State of Iowa located in Union County. It was incorporated in the mid 1930's. The Creston City Water Works Board of Trustees is appointed by the Mayor of Creston and approved by the Creston City Council. The Creston City Water Works provides water services to Creston area residents and surrounding counties.

A. Reporting Entity

The Creston Water Department is a component unit of the City of Creston, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Water Department is governed by a five-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Water Department are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Creston City Water Works maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Creston City Water Works are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Cash Basis Fund Balance

Funds set aside for sewer and garbage fees, and customer water deposits are classified as restricted.

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) **Cash and Pooled Investments**

The Creston City Water Works' deposits in banks at June 30, 2020, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The Creston City Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities: certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Creston City Water Works' investments are categorized to give an indication of the level of risk assumed by the Creston City Water Works at year end. The Creston City Water Works' investment at June 30, 2020, consisted of Certificates of Deposits and are not subject to risk categorization.

Interest rate risk - The Creston City Water Works' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Creston City Water Works.

(3) **Capital Lease**

The Water Works is leasing a John Deere skid loader under a capital lease. The balance of the lease is \$1,007 as of June 30, 2020. Monthly payments are \$505.60 each month, including interest at 4.25percent. The lease is collateralized by the skid loader.

As of June 30, 2020, the present value of future minimum capital lease payments are as follows:

Sept 30, 2020	\$ 1,012
Total minimum lease payments	1,012
Less amount representing interest	5
Present value of net minimum capital lease payments	\$ 1,007

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

(4) Development Agreement

Creston City Water Works has entered into a development agreement on January 9, 2019 with Casey's Marketing Company. As part of Casey's construction of the convenience store, Creston City Water Works has agreed to extend the water main line, at the city's expense, to Casey's property. The parties have agreed that Casey's shall initially bear the expense of construction of the water main extension. Casey's and Creston City Water Works have agreed to a cost estimate for construction of the water main extension of \$74,240 if ductile iron is required or \$56,940 if PVC is utilized. Creston City Water Works shall reimburse Casey's for the total for all costs of construction supported by invoices provided over a five-year period of time. Annual payments in the amount of 20% of the total cost shall be made to Casey's with payments to begin on the first anniversary of the issuance of Casey's occupancy permit. No payments have been requested by Casey's as of June 30, 2020.

(5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Creston City Water Works, except for those covered by another retirement system. Employees of the Creston City Water Works are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

(6) Pension Plan - Continued

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' contribution rate funding policy and actuarial amortization method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Creston City Water Works contributed 9.44% of covered payroll for a total rate of 15.73%.

The Creston City Water Works' contributions to IPERS for the year ended June 30, 2020 totaled \$106,850.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the Creston City Water Works reported a liability of \$839,114 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Creston City Water Works' proportion of the net pension liability was based on the Creston City Water Works' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2019, the Creston City Water Works' proportion was .014394%, which was an increase of .000919% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020 the Creston City Water Works' pension expense, deferred outflows and deferred inflows of resources totaled \$154,356, \$131,874 and \$164,395 respectively.

There were no non-employer contributing entities to IPERS.

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

(5) Pension Plan - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum
Rates of salary increases (effective June 30, 2017)	3.25-16.25%, average, including inflation. Rates vary by membership group
Long-term investment rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 employee and healthy annuitant tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100.0%</u>	

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

(5) Pension Plan - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Creston City Water Works will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Creston City Water Works' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Creston City Water Works' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Creston City Water Works' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1%-lower (6.00%) or 1%-higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Creston City Water Works' proportionate share of the net pension liability	\$1,489,996	\$839,114	\$293,162

IPERS' Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(6) Other Post-Employment Benefits (OPEB)

The Creston City Water Works is included in the City of Creston's health insurance plan. The Waterworks offers health insurance coverage to full time employees retirees and their spouses age 55 or older at retirement. The Waterworks will make available single health insurance coverage for the retiree until he/she reaches the age eligible to receive Medicare or other Government insurance coverage.

There are 15 active employees at the Waterworks, 13 of which have health insurance through Creston City Water Works.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The Waterworks pays 95% of the premium for active employees while the employee is responsible for 5%. Retirees pay full premiums for single coverage. The Waterworks currently finances the retiree benefit plan on as pay-as-you-go basis.

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

(6) Other Post-Employment Benefits (OPEB) - Continued

	Plus Plan	Basic Plan	Value Plan
Deductible	\$420/840	\$960/1,920	\$2,000/4,000
Single Coverage	\$756	No Enrollments	No Enrollments
Family Coverage	\$1,742	No Enrollments	No Enrollments

For the year ended June 30, 2020 Creston City Water Works contributed \$141,987 and Water Works' members eligible for benefits contributed \$3,901 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75.

(7) Related Parties

The City of Creston has title to all the land and buildings used by the Creston City Water Works. The Mayor appoints and the City Council confirms the appointments to the Water Works Board of Trustees.

The Creston City Water Works determines fees charged to users and also charges the City for usage. The Creston City Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The Creston City Water Works remitted \$1,211,492 for sewer rental and \$688,156 for garbage collections and \$9,556 for sewer collection charges to the City for the year ended June 30, 2020. The Creston City Water Works received from the City \$33,651 for water and \$15,938 of other reimbursements.

The Creston City Water Works and City of Creston are covered under the same property insurance policy. Each year the City pays the total premium and the Creston City Water Works reimburses the City for its share of the cost. In 2020, the Water Works reimbursed the City of Creston \$119,735 for insurance.

During the year ended June 30, 2020, the City provided employees of both the City and Creston City Water Works with payments of co-insurance and deductibles for health insurance. The Water Works remitted to the City \$252,768 for health insurance premiums for the year ended June 30, 2020. The City's plan is self-funded and pays claims from its employee benefits special revenue fund up to maximum limits and carried stop loss insurance for claims in excess of limits.

Amounts due to the City at June 30, 2020

Sewer rental	\$ 93,482
Garbage collections	52,388
Sewer connection	<u>862</u>
	<u>\$146,732</u>

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

(8) Compensated Absences

Water Works' employees accumulate a limited amount of earned but unused leave hours for subsequent use or for payment upon termination, retirement or death. The accumulations are not recognized as disbursements by the Water Works until used or paid. The Water Works' approximate liability for earned leave termination payments payable to employees at June 30, 2020, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 42,646
Sick leave	294,999
Floating holiday	<u>1,048</u>
Total	<u>\$ 338,693</u>

This liability has been computed based on rates of pay as of June 30, 2020.

(9) Risk Management

The Creston City Water Works is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Major Customer

A material part of the Water Works' business is dependent upon Southern Iowa Rural Water Association (SIRWA), the loss of which could have a materially adverse effect on the Water Works. During the year ended June 30, 2020, SIRWA accounted for approximately 44% of the water sales. The Creston City Water Works had a contract to provide water to SIRWA through April, 2054. On May 14, 2019, it was moved to enter into negotiations with Southern Iowa Rural Water Association to increase the water purchase rate from \$1.15 to \$1.22, the rates became effective on July 1, 2019.

As a result of SIRWA's recent efforts to finance and construct its own water treatment plant, a dispute has arisen between the parties concerning the ability of SIRWA to stop purchasing water from CCWW under the Fourth Amended and Substituted Water Purchase Contract and the ownership of certain raw water intake facilities at Three Mile Lake.

Representatives of SIRWA and CCWW have negotiated a mutually beneficial resolution of this dispute under which the parties have agreed to terminate the Fourth Amended and Substituted Water Purchase Contract and enter into a new Interim Water Purchase Agreement, which will allow SIRWA to continue purchasing water from CCWW until SIRWA's new water treatment plant is operational and resolve previous uncertainties as to ownership of the intake facilities at Three Mile Lake.

Creston City Water Works

Notes to Financial Statements - Continued

June 30, 2020

(10) Major Customer - Continued

Early Termination Payments

In consideration of the early termination of the Fourth Amended Substituted Water Purchase Contract, SIRWA shall pay CCWW the total sum of \$2,550,000 as follows:

- A) A lump-sum payment of \$1,000,000 within thirty (30) days of the parties' approval of this Agreement; and
- B) A lump-sum payment of \$1,550,000 within thirty (30) days of the termination of the New Interim Water Purchase Agreement.
- C) An increase in water rate to \$1.65/1,000 as of March 1, 2020 until Water Treatment Plant goes online.

Each of these payments shall issue at the time they become due in the form of a check payable to City of Creston Water Works.

Ownership of Three Mile Intake

CCWW hereby relinquishes any proprietary interest that CCWW has or claims to have in the raw water intake facilities located at Three Mile Lake and generally described as a raw water intake structure, intake building, raw water line between Three Mile Lake and the proposed SIRWA Water Treatment Plant located in Parcel "D" Section 12-72-30 Union County, Iowa, including all facilities, equipment, properties, easements, permits, and appurtenances thereto ("Three Mile Intake").

This Interim Water Purchase Agreement shall be in effect from March 1, 2020, until SIRWA terminates the agreement. Provided, however, that the minimum term of this Interim Water Purchase Agreement shall be thirty-six (36) months.

(11) Subsequent Events

Management has evaluated subsequent events through August 17, 2020 the date on which the financial statements were available to be issued.

Creston City Water Works

Other Information

Creston City Water Works

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis)

Other Information

Year Ended June 30, 2020

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Water:			
Charges for services	\$ 5,552,057	\$ 1,922,192	\$ 3,629,865
Use of money and property	4,388	-	4,388
Miscellaneous	1,115,973	-	1,115,973
	<u>6,672,418</u>	<u>1,922,192</u>	<u>4,750,226</u>
Disbursements:			
Business type activities:			
Water	<u>5,129,392</u>	<u>1,904,806</u>	<u>3,224,586</u>
Excess deficiency of receipts over (under) disbursements	1,543,026	(17,386)	1,525,640
Cash balances beginning of year	<u>766,421</u>	-	<u>766,421</u>
Cash balances end of year	<u>\$ 2,309,447</u>	<u>\$ (17,386)</u>	<u>\$2,292,061</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance Favorable (Unfavorable)
Original	Final	
\$ 3,180,000	\$ 3,180,000	\$ 449,865
8,500	8,500	(4,112)
279,300	279,300	836,673
3,467,800	3,467,800	1,282,426
3,467,800	3,467,800	243,214
\$ -	\$ -	\$ 1,525,640

Creston City Water Works

Notes to Other Information - Budgetary Reporting

June 30, 2020

The Creston City Water Works prepares a budget on the cash basis of accounting for all funds except sewer and storm water fees collected for and remitted to the City and submits it to the City Council. In accordance with the Code of Iowa, the Creston City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget was amended once during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. The water department's disbursements are budgeted in the business type activities function. During the year, no budget amendments were adopted.

During the year ended June 30, 2020, no disbursements exceeded the amount budgeted.

Creston City Water Works

Schedule of the Creston City Water Works' Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
for the last six years*
(In Thousands)

Other Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Creston City Water Works' proportion of the net pension liability	.014344%	.013475%	.014760%	.014025%	.013725%	.013038%
Creston City Water Works' proportionate share of the net pension liability	\$ 838	\$ 852	\$ 974	\$ 875	\$ 682	\$ 528
Creston City Water Works' covered-employee payroll	\$1,017	\$1,019	\$ 1,097	\$ 997	\$ 941	\$ 873
Creston City Water Works' proportionate share of the net pension liability as a percentage of its covered-employee payroll	82.40%	83.61%	88.79%	87.76%	72.48%	60.48%
Plan fiduciary net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

Creston City Water Works

Schedule of Creston City Water Works' Contributions

Iowa Public Employees' Retirement System For the Last 10 Fiscal Years (In Thousands)

Other Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 107	\$ 105	\$ 91	\$ 98
Contributions in relation to the statutorily required contribution	<u>(107)</u>	<u>(105)</u>	<u>(91)</u>	<u>(98)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Creston City Water Works' covered-employee payroll	1,132	1,108	1,019	1,097
Contributions as a percentage of covered-employee payroll	9.45%	9.47%	8.93%	8.93%

See accompanying independent auditor's report.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 89	\$ 84	\$ 78	\$ 77	\$ 67	\$ 51
<u>(89)</u>	<u>(84)</u>	<u>(78)</u>	<u>(77)</u>	<u>(67)</u>	<u>(51)</u>
<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
997	941	873	888	830	730
8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

Creston City Water Works

Notes to Other Information - Pension Liability

Year ended June 30, 2020

Changes of benefit terms:

There are not significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018.

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

Creston City Water Works

Unaudited Schedule of Operating Statistics

Years Ended June 30,

	Year Ended June 30,			
	2020	2019	2018	2017
Number of customers	3,421	3,392	3,365	3,438
Number of gallons billed	1,347,003,134	1,306,721,245	1,359,248,635	1,297,344,677
Number of gallons pumped	1,408,883,000	1,354,392,000	1,411,591,006	1,372,166,000
% of gallons billed to total pumped	96%	96%	96%	95%

Water rates in effect at June 30, 2020

Cubic Feet Used Per Month	Rate Per 100 Cubic Feet of Usage
0 - 2,000	\$6.50*
2,001 - 6,000	5.46
6,001 - 24,000	4.77
24,001 and over	4.22

* Minimum charge per month is \$18.20

The Water Works and the City of Creston are covered under one insurance policy. The Water Works reimburses the City annually for its portion of the insurance premium. At June 30, 2020, the following coverages were in effect:

Fire and extended coverage:

Buildings and contents	\$35,530,535
------------------------	--------------

Liability:

Umbrella excess policy	2,000,000
Linebacker liability	2,000,000
Workmen's compensation	Statutory
Comprehensive automobile policy	1,000,000
Employee Benefit Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Employees crime coverage	200,000
Bond on Water Works manager	200,000

The foregoing operating statistics and insurance information are presented on the basis of unaudited records maintained in the Water Works office. The amounts and accuracy of the operating statistics were not investigated by the auditors.

See accompanying independent auditor's report.

Creston City Water Works



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

4949 Pleasant Street, Suite 104

West Des Moines, Iowa 50266

(515)-223-4841

FAX: (515)-223-0851

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Creston City Water Works

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Creston City Water Works, as of and for the year ended June 30, 2020, and the related notes to the financial statement, and have issued our report thereon dated August 17, 2020. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Creston City Water Works' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Creston City Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Creston City Water Works' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-20 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Creston City Water Works' financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Creston City Water Works' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Creston City Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Creston City Water Works' Response to Findings

Creston City Water Works' response to the findings identified in our audit is described in the accompanying Schedule of Findings. Creston City Water Works' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Creston City Water Works during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Martens & Company, CPA, LLP

West Des Moines, Iowa
August 17, 2020

Creston City Water Works

Schedule of Findings

Year Ended June 30, 2020

Part I: Summary of the Independent Auditor's Results:

- (a) An unmodified opinion was issued on the financial statement which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statement.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-20 Segregation of Duties

Criteria - Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Creston Water Works financial statements.

Condition - One individual in the Creston Water Works has control over the cash receipts, bank deposits and the posting of cash receipts to the cash receipts journal.

Cause - The Creston Water Works has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect - Inadequate segregation of duties could adversely affect the Creston Water Works ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation -The Creston Water Works should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We have reviewed procedures and plan to make the necessary changes to improve internal control.

Creston City Water Works

Schedule of Findings

Year Ended June 30, 2020

Part II: Findings Related to the Financial Statements: - Continued

Conclusion - Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-20 Certified Budget - Disbursements during the year ended June 30, 2020, did not exceed the amounts budgeted in the business type activities functions.
- III-B-20 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-20 Travel Expense - No expenditures of Water Works' money for travel expenses of spouses of Water Works' officials or employees were noted.
- III-D-20 Business Transactions - There were no business transactions noted between the Creston City Water Works and Creston City Water Works officials or employees.
- III-E-20 Bond Coverage - Surety bond coverage of Creston City Water Works's official and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-20 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-20 Deposits and Investments - The Water Works has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.